

## CREDIT OPINION

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# Springhollow Municipal Utility District, TX

Update following upgrade to Baa2

## Summary

[Springhollow MUD, TX](#) (Baa2) benefits from a rapidly growing tax base, favorable income and wealth levels and a healthy financial position, offset by an elevated debt burden.

On February 7 we upgraded the district's general obligation unlimited tax (GOULT) rating to Baa2 from Baa3.

## Credit strengths

- » Favorable wealth and income profile
- » Lack of responsibility for utility operations
- » Growing residential tax base

## Credit challenges

- » Elevated debt burden with future debt plans
- » Slow principal amortization

## Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

## Factors that could lead to an upgrade

- » Full build out of remaining developable acreage
- » Reduction in debt burden below 8% of assessed valuation
- » Tax base expansion to over \$500 million

## Factors that could lead to a downgrade

- » Operating deficits, reducing available fund balance to less than 150% of revenues
- » Significant increase in debt burden relative to full value and revenue
- » Sustained tax base contraction below \$250 million

## Key indicators

Exhibit 1

### Springhollow Municipal Utility District, TX

	2019	2020	2021	2022	2023
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$8,500	\$13,574	\$30,060	\$57,539	\$132,216
Population	-	172	172	497	910
Full Value Per Capita	N/A	\$78,921	\$174,768	\$115,772	\$145,292
Median Family Income (% of US Median)	170.2%	165.4%	164.7%	170.5%	-
<b>Finances</b>					
Operating Revenue (\$000)	\$92	\$232	\$488	\$852	\$1,718
Fund Balance (\$000)	\$110	\$175	\$452	\$1,134	\$2,588
Cash Balance (\$000)	\$132	\$206	\$615	\$1,771	\$3,349
Fund Balance as a % of Revenues	119.5%	75.2%	92.6%	133.1%	150.7%
Cash Balance as a % of Revenues	142.9%	88.9%	126.0%	207.8%	194.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$0	\$0	\$2,360	\$10,635	\$25,980
3-Year Average of Moody's ANPL (\$000)	\$0	\$0	\$0	\$0	\$0
Net Direct Debt / Full Value (%)	0.0%	0.0%	7.9%	18.5%	19.6%
Net Direct Debt / Operating Revenues (x)	0.0x	0.0x	4.8x	12.5x	15.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Source: Springhollow Municipal Utility District's financial statements and Moody's Investors Service

## Profile

The district is comprised of about 532 acres located in north central Hays County, about 20 miles southwest of downtown [Austin](#) (Aa1 stable). The district is being developed as Parten Ranch, an entirely residential community, and the population is currently estimated at about 1,120 residents. The district is not responsible for utility operations; water service is provided by the West Travis Co. Public Utility Agency and wastewater service is provided by Hays Co. MUD 5, TX.

## Detailed credit considerations

The district benefits from a rapidly growing, albeit modestly-sized, tax base favorably located in the economically vibrant Austin metropolitan area. The entirely residential tax base is made up of high-end single family homes, suggesting a favorable resident income and wealth profile. Strong property value growth has driven consistent surplus operations, bolstering reserves to their currently healthy levels. The district's lack of utility operations is a credit positive as it reduces risk of budgetary pressure from unexpected changes in revenues or expenditures. Finally, the district's credit profile is constrained by an elevated debt burden and plans for additional debt in the next few years to reimburse developers for capital advances. Following issuance of the Series 2024 utility and road bonds, the district's debt burden will total an elevated 17.1% of fiscal 2024 certified assessed value (AV), though it is a more manageable 12.8% relative to the estimate of AV as of January 2024.

The district's financial position will continue to improve driven by conservative budgeting, strong property tax revenue performance and limited scope of operations. The district's fiscal 2024 budget reflects a roughly \$500,000 general fund surplus, and the district has historically outperformed budgeted expectations. The district anticipates issuing additional debt on an annual basis for the next three years as the district approaches full build out and developers are reimbursed for capital outlay. Future debt will be issued in conjunction with commensurate AV growth, keeping the debt burden manageable under current tax rates.

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## ESG considerations

### Environmental

Environmental considerations do not present material risks to the district's credit profile. The district's location in central Texas puts it at risk for heat, water stress, and wildfires. Favorably the state of Texas (Aaa stable) has taken action to help mitigate water stress risk within its borders by issuing general obligation debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects. Extreme weather events are also typically accompanied by state and federal assistance, which further mitigates environmental risk.

### Social

The district benefits from the strong population growth of the Austin metro area. Resident income indices are strong with median family income at 170% of the U.S. based on Dripping Springs Independent School District. Homes within the district cater to luxury buyers and range between \$800,000 to over \$1.2 million.

### Governance

The district is governed by a five member board of directors. Although the district does not have any employees, which is typical for MUDs, the district contracts out for critical needs including bookkeeping and other financial services. The district is subject to oversight by the Texas Commission of Environmental Quality.

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